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SUBJECT: ATLANTIC CANADA: OFFSHORE ENERGY EXPLORATION COSTS BECOMING PROHIBITIVE?

¶1. Although there have been some major strides in reducing regulatory delays and costs for offshore energy exploration, most drilling expenses for companies looking for energy off Atlantic Canada are outside of the control of regulators, the Chair of the Canada-Nova Scotia Offshore Petroleum Board told a June 23 meeting of The Energy Council. Diana Lee Dalton described for the group, which is meeting in Halifax for the first time, some of the challenges in containing expenses of offshore drilling operations. The bottom line: looking for energy offshore Nova Scotia or Newfoundland-Labrador currently costs approximately C\$100 million per well.

¶2. The main culprits in the rising costs, Dalton said, are drilling rig rates and wages for offshore workers. There are only six to eight rigs in the world winterized and with dynamic positioning that are capable of working year-round in the harsh North Atlantic conditions. Rates for these rigs have spiraled in recent years, to around C\$480,000 per day. Most wells offshore Atlantic Canada require at least 100 days to drill.

¶3. Dalton noted that regulatory approval times for exploratory drilling have dropped significantly, to between nine and 13 months, down from the 18 months that it took to approve exploratory drilling for the Sable gas project off Nova Scotia. Labor rules that mandated complete crew changes when a vessel moved between Newfoundland and Nova Scotia waters have been eliminated, as have duty charges on drilling rigs that had cost an estimated C\$1 million per well. All of the cost savings from that substantial regulatory improvement, however, have been subsumed by drilling rig rates that have risen by 100% over the last few years.

¶4. COMMENT: Energy exploration companies have frequently told us in recent years that the costs of looking for energy offshore Atlantic Canada are so high as to almost negate the area's main advantage -- proximity to the U.S. market. With only one in six exploratory wells actually turning out to be successful, exploration companies are now looking at C\$500 - 600 million just to find a producing well. These kinds of costs blunt the competitive advantage that the Atlantic Canada offshore has, even with oil at US\$70 a barrel. Nova Scotia has been particularly hard-hit -- recent wells have not been successful and firms interested in exploring offshore have been looking increasingly to Newfoundland-Labrador's Orphan Basin. END COMMENT.

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